



State of Washington
Department of Revenue

Excise Tax Advisory

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MANAGEMENT CHARGES FROM PARENT TO SUBSIDIARY

Issued July 8, 1966

Are "management costs" which a parent corporation charges its affiliates exempt from the "Service" classification?

Taxpayer corporation charged its subsidiary corporations certain costs for management, administrative, clerical, and accounting functions it performed for the subsidiaries. The costs allocated involved salaries of persons employed by the parent but who perform services for all the corporations. Since segregation by working time was impossible, all expenses were allocated in the ratio of the gross revenue of the various corporations. Taxpayer asserted that the corporation was set up because of legal technicalities and the business was, in substance, one over-all operation.

Rule 203 provides that a parent and its subsidiaries are separately organized corporations and therefore separate "persons" within the meaning of the tax law. Rule 201 allows a deduction for "interdepartmental charges," but does not permit a deduction of income derived from an affiliated corporation.

The Commission held that management costs a parent charged its affiliates constituted taxable transactions under the law. The fact that the entities were interrelated was immaterial.

ETBS have been made Excise Tax Advisories, and have retained their old number. Advisories with a 2 (plus three digits) are new advisories, ETBs that have been revised and readopted after review under the Department's regulatory improvement program, or advisories that have been revised and/or readopted.

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Please direct comments to:
Department of Revenue
Legislation & Policy Division
P O Box 47467
Olympia, Washington 98504-7467
(360) 753-4161 eta@DOR.wa.gov